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PROGRAMME AND BUDGETS, 1994-1995

Implications of the withdrawal of Canada

Note by the Director-General

Summary

Presents the implications for the programme and budgets and assessed contributions of the withdrawal of Canada from UNIDO as of 31 December 1993 and submits options to deal with the issue for consideration by the Programme and Budget Committee.

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Introduction

1. Canada deposited an instrument of denunciation of the Constitution of UNIDO with the Depositary on 3 December 1992. On 9 December 1992, the Office of Legal Affairs, United Nations, informed UNIDO of that action. In accordance with Article 6.2 of the Constitution of UNIDO, the withdrawal of Canada from UNIDO shall take effect on 31 December 1993, it being the last day of the fiscal year following that during which the instrument was deposited. Therefore Canada will not be included in the UNIDO scale of assessments for the biennium 1994-1995.

2. The present document deals with the budgetary implications of the issue and presents four options for consideration by the Programme and Budget Committee.

I. PROGRAMME AND BUDGETS, 1994-1995

3. The proposed programme and budgets for 1994-1995 presented to Member States in document PBC.9/2-IDB.11/2 were prepared, inter alia, in accordance with decision IDB.10/Dec.7(c) which "approved a ceiling for the regular budget for the biennium 1994-1995 representing zero real growth as compared with the biennium 1992-1993".

4. The budget estimates for the 1994-1995 biennium representing zero real growth were prepared in accordance with financial regulation 3.4. Thus, no account has been taken of the scale of assessment for regular budget contributions that would reflect changes in the membership of the Organization. However, in conformity with the new format of the programme and budgets approved in Board decision IDB.7/Dec.11 and first introduced for the 1992-1993 biennium, comparative information is provided in the draft programme and budget proposals for 1994-1995 on the proposed rates of assessments and contributions of Member States to the regular budget of the Organization. Ultimately, however, the regular budget appropriations will be apportioned on the basis of the scale of assessments to be approved by the General Conference at its fifth session. In the

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interim period, the issue will be taken up by the Programme and Budget Committee under item 7 of its provisional agenda (see document PBC.9/5-IDB.11/5).

5. In computing the proposed scale of assessments for UNIDO, the withdrawal of Canada from membership in UNIDO required that the scale rate for Canada (3.11 percentage points in the United Nations scale) be redistributed in accordance with established procedures to account for differences in membership between the United Nations and UNIDO. The impact on the UNIDO scale (3.15 per cent) represents approximately $6.5 million (at US$ 1 = AS 12.90) of the proposed regular budget expenditures for 1994-1995 (cf. document PBC.9/2-IDB.11/2). This impact was calculated on the basis of the current actual membership, which will be adjusted in 1993 as rates of assessment are decided for the Czech Republic and Slovakia and as other Member States join UNIDO. Adjustments to advances to the Working Capital Fund will also be necessary as a result of changes in membership.

6. It should be emphasized that the resource levels reflected in the 1994-1995 draft programme and budgets are the minimum required to implement effectively the Organization's programme of work that was drawn up in response to the mandates of Member States. Any reduction in resources to levels below those included in the draft programme and budgets cannot be made without exerting a negative impact on programmes and reducing - if not eliminating - their effectiveness. In practical terms, a budget reduction that reduces the scope and resources of the Organization would not be possible without reducing staff and would result in unbudgeted termination costs, thus reducing even further the capacity of the Organization to implement its mandated activities. Furthermore, budget reductions would severely inhibit the capacity of the Organization for reform and revitalization, especially at a time when the new Director-General will require maximum managerial and financial flexibility.

II. OPTIONS FOR CONSIDERATION BY MEMBER STATES

7. The Secretariat has identified four possible options to deal with the implications of the withdrawal of Canada for the programme budgets and assessments on Member States: (a) maintenance of zero real growth budgets; (b) programme reductions; (c) increases in the vacancy factors used in the budget; and (d) budgetary appropriations financed from unutilized balances. Those options are described below, together with the advantages and disadvantages.

Option No. 1 - Maintenance of zero real growth budgets

Premises

This option is that assumed in the proposed programme and budgets (PBC.9/2-IDB.11/2). It presumes that Member States wish to ensure that a zero real growth budget is preserved and that the capacity of the Organization to carry out the mandated programmes is maintained. The financing of the approved programmes of work would continue to be shared by UNIDO Member States in accordance with financial regulation 5.1(a). The revisions to scale rates would reflect reduced membership and consequent increases in assessed contributions by Member States.

Advantages

1. Capacity of Organization to carry out mandated activities and programme of work would be maintained through 1994-1995.

2. The budgets would conform to Board decision IDB.10/Dec.7(c) by remaining at zero real growth.

3. Unbudgeted termination costs arising from possible staff reductions would be avoided.

Disadvantages

1. From the standpoint of Member States, this option might be perceived as disadvantageous on account of the increased financial burden it imposes on many Member States.

Option No. 2 - Programme reductions

Premises

This option would foresee a reduction in the budget equal to the assessed contribution which Canada would have paid, had it remained a member in UNIDO. This reduction in the budgetary base would represent negative real growth of 3.15 per cent. Furthermore, implementation of this option would require the prioritization of mandated activities and subsequent identification of programmes to be reduced, deferred or eliminated.

Advantages

1. Overall level of assessed contributions would be reduced in real terms in 1994-1995 over 1992-1993 since the budget would be cut by an amount equivalent to the Canadian assessment. This would result in a reduction of individual assessed contributions as against those that would prevail under option 1.

Disadvantages

1. Mandated activities and programme of work would be reduced.

2. Programme and budgets would reflect negative real growth of 3.15 per cent.

3. Unbudgeted termination costs would arise from possible staff reductions, imposing a financial burden that would have to be borne by Member States.

4. From the standpoint of Member States, this option poses a disadvantage since the scale rates of a few Member States would increase over 1992-1993 as a result of the scale rate of one Member State being fixed at 25 per cent.

Option No. 3 - Increases in the vacancy factors used in the budget

Premises

This option would represent a reduction in budgetary resource levels to finance the programme of work outlined in the draft proposals. It would require incorporating in the budget vacancy factors in excess of the standard rate of 5 per cent for Professional posts. This option is distinguishable from option 2 only in that the budgetary reductions would be applied to staff resources in all programmes. In order to achieve negative growth in the 1994-1995 budgets of 3.15 per cent, thereby offsetting the reduced assessed contribution income resulting from the withdrawal of Canada, the following increases in the vacancy factors used in the budget would be required:

(a) The vacancy factor for Professional posts would be increased from the standard rate of 5 per cent to 9 per cent;

(b) A vacancy factor of 5 per cent would be applied to all General Service posts.

Advantages

1. The overall level of assessed contributions would be reduced in real terms in 1994-1995 over 1992-1993 as a result of the withdrawal of Canada since the budget would be reduced by an amount equivalent to the Canadian assessment.

2. If applied to the biennium 1994-1995 only, it allows for the restoration of a zero real growth base in 1996-1997. Full capacity could thus be reassumed in 1996-1997.

Disadvantages

1. Since the programmes of work detailed in the proposed programme and budgets (PBC.9/2-IDB.11/2) would not equate with the resource levels available to carry them out, the implementation rate would drop substantially, thus effectively curtailing the mandated activities.

2. Programme and budgets would reflect negative real growth of 3.15 per cent.

3. Unbudgeted termination costs could arise from possible staff reductions, imposing a financial burden that would have to be borne by Member States.

4. The application of vacancy factors during the biennium would not necessarily impact evenly on all programmes and activities.

5. A continued shortfall in the receipt of assessed contributions from Member States could result in even higher actual vacancies with a consequent additional negative impact on programmes.

Option No. 4 - Budgetary appropriations financed from unutilized balances

Premises

This option foresees the financing of the regular budget estimates ($206.2 million) for 1994-1995 from two sources. The first would be from assessed contributions of Member States in accordance with financial regulation 5.1(a) of 96.85 per cent of the 1994-1995 budget ($199.7 million). The second source of financing pertaining to the remaining 3.15 per cent of the regular budget would be from unutilized balances expected to be carried over from the 1992-1993 biennium ($6.5 million). The proposal is based on actual (for 1992) and anticipated (for 1993) regular budget financial implementation. It is expected that given the delayed payment of assessed contributions, unutilized balances will be realized in 1992-1993 through the obligatory holdback of appropriations mandated by the General Conference. However, the extent to which unutilized balances are carried over would be strictly limited to 3.15 per cent ($6.5 million) of the regular budget estimates for 1994-1995. Implementation of this option would require the suspension in 1995 of financial regulations 4.2(b) and 4.2(c) in respect of the specific amount to be carried over to 1994-1995 as income to the regular budget for that biennium. Unutilized balances for 1992-1993 in excess of the amount carried over would be accounted for in accordance with financial regulation 4.2.

Advantages

1. Capacity of the Organization to carry out mandated activities and programme of work would be maintained through 1994-1995.

2. The budgets would conform to Board decision IDB.10/Dec.7(c) by remaining at zero real growth.

3. Unbudgeted termination costs arising from possible staff reductions could be avoided.

4. Member States would not be subject to higher scale rates or increased assessed contributions in 1994-1995 over 1992-1993 which otherwise arise under option 1.

5. The resources of the Organization would not be subject to the abrupt reduction entailed under option 2.

6. Member States and the Secretariat would have more time to consider restructuring and prioritization, taking account of resource levels expected for 1996-1997.

Disadvantages

1. The Organization would continue to face cash shortfalls impacting on programme implementation unless Member States took steps to reduce the amount of arrears of assessed contributions.

2. Member States forgo part of the projected unutilized balances for 1992-1993 which could otherwise have been returned to them under the provisions of financial regulations 4.2(b) and 4.2(c).

3. This option could be applied only to the 1994-1995 biennium and the Organization may experience a negative real growth rate of 3.15 per cent and consequent adjustments in the 1996-1997 programme and budgets.

III. CONCLUSION

8. On the basis of the review of the options presented above, it would appear that the interests of Member States and the Organization would be best served by the proposal to carry forward part of the anticipated unutilized balance from the 1992-1993 biennium (option No. 4) to offset the shortfall in assessed contributions resulting from the withdrawal of Canada from the Organization.

9. The use of unutilized balances carried over from the 1992-1993 biennium would have the advantage of ensuring that both zero real growth and the capacity to implement programmes are maintained in the 1994-1995 biennium without additional assessment on Member States.

IV. ACTION REQUIRED OF THE COMMITTEE

10. The Committee may thus wish to consider recommending to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the information provided by the Director-General on implications of the withdrawal of Canada (PBC.9/11);

"(b) Recommends to the General Conference the application of option No. 4 as described in document PBC.9/11;

"(c) In order to facilitate the implementation of that option authorizes the Director-General to incur expenditures during the biennium 1994-1995 up to a maximum amount corresponding to 3.15 per cent of the regular budget estimates of that biennium ($6.5 million) in anticipation of the suspension by the policy-making organs of financial regulations 4.2(b) and 4.2(c) in respect of that portion of the unutilized balances of appropriations for the biennium 1992-1993."